

**REPORT OF THE AUDIT OF THE  
CAMPBELL COUNTY  
SHERIFF'S SETTLEMENT - 2002 TAXES**

**March 28, 2003**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**105 SEA HERO ROAD, SUITE 2  
FRANKFORT, KY 40601-5404  
TELEPHONE (502) 573-0050  
FACSIMILE (502) 573-0067**





C R I T L U A L L E N  
A U D I T O R O F P U B L I C A C C O U N T S

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Steve Pendery, Campbell County Judge/Executive  
Honorable John D. Dunn, Jr., Campbell County Sheriff  
Members of the Campbell County Fiscal Court

The enclosed report prepared by Carpenter, Mountjoy & Bressler, PSC, Certified Public Accountants, presents the Campbell County Sheriff's Settlement - 2002 Taxes as of March 28, 2003.

We engaged Carpenter, Mountjoy & Bressler, PSC to perform the financial audit of this statement. We worked closely with the firm during our report review process; Carpenter, Mountjoy & Bressler, PSC evaluated the Campbell County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen".

Crit Luallen  
Auditor of Public Accounts

Enclosure





**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE  
CAMPBELL COUNTY  
SHERIFF'S SETTLEMENT - 2002 TAXES**

**March 28, 2003**

Carpenter, Mountjoy & Bressler, PSC has completed the audit of the Sheriff's Settlement - 2002 Taxes for Campbell County Sheriff as of March 28, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$28,230,614 for the districts for 2002 taxes, retaining commissions of \$921,094 to operate the Sheriff's office. The Sheriff distributed taxes of \$27,288.608 to the districts for 2002 Taxes. Taxes of \$5,240 are due to the districts from the Sheriff and refunds of \$17,227 are due to the Sheriff from the taxing districts.

**Deposits:**

As of November 30, 2002, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$11,254,810 of public funds uninsured and unsecured.

**Report Comments:**

- Lacks Adequate Segregation of Duties
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$11,254,810 To Protect Deposits



## CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT .....	1
SHERIFF'S SETTLEMENT - 2002 TAXES .....	3
NOTES TO FINANCIAL STATEMENT .....	5
COMMENTS AND RECOMMENDATIONS .....	9
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS .....	12





# Carpenter, Mountjoy & Bressler

Certified Public Accountants and Consultants

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary, Finance and Administration Cabinet

Honorable Steve Pendery, Campbell County Judge/Executive

Honorable John D. Dunn, Jr., Campbell County Sheriff

Members of the Campbell County Fiscal Court

## Independent Auditor's Report

We have audited the Campbell County Sheriff's Settlement - 2002 Taxes as of March 28, 2003. This tax settlement is the responsibility of the Campbell County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Campbell County Sheriff's taxes charged, credited, and paid as of March 28, 2003, in conformity with the modified cash basis of accounting.

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary, Finance and Administration Cabinet

Honorable Steve Pendery, Campbell County Judge/Executive

Honorable John D. Dunn, Jr., Campbell County Sheriff

Members of the Campbell County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated November 25, 2003, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- Lacks Adequate Segregation of Duties
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$11,254,810 To Protect Deposits

Respectfully submitted,

A handwritten signature in cursive script that reads "Carpenter, Mountjoy & Bressler, PSC". The signature is written in dark ink on a light-colored background.

Carpenter, Mountjoy & Bressler, PSC

Audit fieldwork completed -  
November 25, 2003

CAMPBELL COUNTY  
JOHN D. DUNN, JR., COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2002 TAXES

March 28, 2003

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 3,635,355	\$ 5,254,071	\$ 11,845,222	\$ 4,718,970
Tangible Personal Property	274,247	367,233	892,410	792,223
Intangible Personal Property				403,168
Increases Through Exonerations	1,333	2,345	17,714	3,476
Franchise Corporation	179,926	225,447	641,262	
Additional Bills			1,582	
Penalties	13,291	18,803	43,734	18,330
Adjusted to Sheriff's Receipt	<u>(5,477)</u>	<u>(5,152)</u>	<u>26</u>	<u>(7,093)</u>
Gross Chargeable to Sheriff	<u>\$ 4,098,675</u>	<u>\$ 5,862,747</u>	<u>\$ 13,441,950</u>	<u>\$ 5,929,074</u>
<u>Credits</u>				
Exonerations	\$ 19,664	\$ 29,129	\$ 71,074	\$ 81,590
Discounts	65,987	94,785	214,490	99,846
Delinquents:				
Real Estate	47,710	66,123	161,830	61,932
Tangible Personal Property	9,448	12,997	20,759	17,133
Intangible Personal Property				4,009
Uncollected Franchise	<u>2,900</u>	<u>3,952</u>	<u>11,556</u>	
Total Credits	<u>\$ 145,709</u>	<u>\$ 206,986</u>	<u>\$ 479,709</u>	<u>\$ 264,510</u>
Taxes Collected	\$ 3,952,966	\$ 5,655,761	\$ 12,962,241	\$ 5,664,564
Less: Commissions (a)	<u>168,289</u>	<u>187,899</u>	<u>324,056</u>	<u>241,031</u>
Taxes Due	\$ 3,784,677	\$ 5,467,862	\$ 12,638,185	\$ 5,423,533
Taxes Paid	3,782,674	5,458,556	12,627,745	5,418,775
Refunds (Current and Prior Year)	<u>4,461</u>	<u>3,278</u>	<u>18,246</u>	<u>6,915</u>
Due Districts or (Refunds Due Sheriff) as of Completion of Fieldwork	<u>\$ (2,458)</u>	<u>(b) \$ 6,028</u>	<u>(c) \$ (7,806)</u>	<u>\$ (2,157)</u>

(a), (b), (c) See Page 4

The accompanying notes are an integral part of this financial statement.

CAMPBELL COUNTY  
 JOHN D. DUNN, JR., SHERIFF  
 SHERIFF'S SETTLEMENT – 2002 TAXES  
 March 28, 2003  
 (Continued)

(a) Commissions:

10% on	\$	10,000
4.25% on	\$	13,648,822
2.5% on	\$	12,962,241
1% on	\$	1,614,469

(b) Special Taxing Districts:

Library District	\$	4,724
Health District		945
Extension District		930
Soil Conservation		(28)
Courthouse Commission		499
Fire District #1		16
Fire District #2		(334)
Fire District #4		(256)
Fire District #5		(468)
Fire District #6		

Due Districts or (Refunds Due Sheriff)	\$	<u>6,028</u>
--	----	--------------

(c) School Districts:

Common School District	\$	(8,141)
Newport School District		
Bellevue School District		1,450
Dayton School District		(1,100)
Silver Grove School District		(15)

Due Districts or (Refunds Due Sheriff)	\$	<u>(7,806)</u>
--	----	----------------

CAMPBELL COUNTY  
NOTES TO FINANCIAL STATEMENT

March 28, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The depository institution's board of directors or loan committee did not approve the pledge or provision of collateral, and the depository institution did not have a written agreement with the Sheriff securing the Sheriff's interest in the collateral.

CAMPBELL COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 March 28, 2003  
 (Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of November 30, 2002.

	<u>Bank Balance</u>
FDIC Insured	\$ 215,980
Uncollateralized and uninsured	<u>11,254,810</u>
Total	<u><u>\$ 11,470,790</u></u>

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the year ended June 30, 2002. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 17, 2002 through March 28, 2003.

Note 4. Interest Income

The Campbell County Sheriff earned \$1,842 as interest income on 2002 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Campbell County Sheriff collected \$61,611 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Campbell County Sheriff collected \$5,025 of advertising costs and \$3,015 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

CAMPBELL COUNTY  
NOTES TO FINANCIAL STATEMENT  
March 28, 2003  
(Continued)

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After seven years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2002 taxes, the Sheriff had \$31,984 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

THIS PAGE LEFT BLANK INTENTIONALLY



## COMMENTS AND RECOMMENDATIONS



CAMPBELL COUNTY  
JOHN D. DUNN, JR., COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS

March 28, 2003

INTERNAL CONTROL – REPORTABLE CONDITION AND MATERIAL WEAKNESS:

Lacks Adequate Segregation of Duties

We noted the lack of an adequate segregation of duties for the internal control structure and its operation that, in our judgement, is a reportable condition under standards established by the American Institute of Certified Public Accountants. Due to the entity's diversity of official operations, small size, and budget restrictions, the official has limited options for establishing an adequate segregation of duties. Management has considered and rejected additional cost when setting budget limits on spending for salaries and, therefore, accepts the degree of risk for lack of an adequate segregation of duties.

Because of the limitations of the Sheriff's office, it appears that only compensating controls may achieve a proper segregation of duties. Compensating controls require the Sheriff's direct supervision over receipts and disbursements and include, but are not limited to, the following:

1. Cash periodically recounted and deposited by the Sheriff.
2. Surprise cash counts by the Sheriff.
3. Reconciliation by the Sheriff of daily collection reports to the receipts ledger and deposit slip.
4. Periodic reconciliation by the Sheriff of monthly collection reports to the receipts ledger and disbursements ledger.
5. Requiring dual signatures on checks with one being that of the Sheriff.
6. Examination by the Sheriff of tax distributions prepared by another employee.
7. Delivery by the Sheriff of tax distribution checks and monthly tax reports to the taxing districts.
8. Sheriff receiving signed receipt documenting delivery.

We recommend that these controls be performed in order to offset a lack of adequate segregation of duties. Documentation of these controls should be maintained for the auditor in order to verify their existence.

*Sheriff's response:*

*None.*

CAMPBELL COUNTY  
JOHN D. DUNN, Jr., COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS  
March 28, 2003  
(Continued)

STATE LAWS AND REGULATIONS:

The Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$11,254,810 And Enter Into A Written Agreement To Protect Deposits

On November 30, 2003, \$11,254,810 of the Sheriff's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$215,980 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The Sheriff should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

*Sheriff's Response:*

*None.*

PRIOR YEAR:

- Lacks An Adequate Segregation of Duties
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$14,731,806 To Protect Deposits

REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





*Certified Public Accountants and Consultants*

The Honorable Steve Pendery, Campbell County Judge/Executive  
The Honorable John D. Dunn, Jr., Campbell County Sheriff  
Members of the Campbell County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Campbell County Sheriff's Settlement - 2002 Taxes as of March 28, 2003, and have issued our report thereon dated November 25, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Campbell County Sheriff's Settlement - 2002 Taxes as of March 28, 2003 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards which is described in the accompanying comments and recommendations.

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$11,254,810 To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Campbell County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying comments and recommendations.

- Lacks Adequate Segregation Of Duties

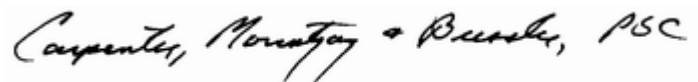
Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable condition described above is considered to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Carpenter, Mountjoy & Bressler, PSC". The signature is written in a cursive, flowing style.

Carpenter, Mountjoy & Bressler, PSC

Audit fieldwork completed -  
November 25, 2003



